



Report to: General Committee

Report Date: November 28, 2016

SUBJECT: 2017 Budget
PREPARED BY: Andrea Tang, Senior Manager of Financial Planning

RECOMMENDATION:

- 1) That the report dated November 28, 2016 entitled, “2017 Budget” be received;
- 2) And That Council approve a 3.46% property tax rate increase to the City’s tax levy, which includes an infrastructure investment of 0.5%;
- 3) And That Council approve the 2017 Primary Operating Budget for City services of \$201,774,678 and Library of \$13,614,879 to a total of \$215,389,557 (excluding the 2016 surplus/deficit) which includes a 3.46% property tax rate increase, of which the principal components are detailed in Appendices 1 and 2;
- 4) And That the gross operating expenditures of \$215,389,557, (excluding the 2016 surplus/deficit), be funded from the following sources:

	<u>2017 Budget \$</u>
Taxation Levies	149,878,594
Payments-in-lieu of Taxes	1,209,007
Grant & Subsidy Revenues	1,640,829
General Revenues (Investment Income, Fines, Permits, Penalty & Interest)	30,790,807
User Fees & Service Charges, Rentals and Sales	26,617,761
Other Income / Recoveries	<u>5,252,559</u>
Total Revenues	<u>215,389,557</u>

- 5) And That Council approve the remaining 2017 Capital Budget of \$69,457,500 for a total of \$81,474,100 of which the projects are detailed in Appendix 3;
- 6) And That the incremental transfer from the Operating Budget to the Life-cycle Replacement and Capital Reserve (“the Reserve”) be increased by 2% annually for inflation;
- 7) And That the \$510,000 currently in the operating budget (which was previously transferred to the Library reserve for years 2003-2012) be redirected to the Reserve since the Library transfer is no longer required; and
- 8) a) And That the Ramp-up reserve fund the remaining Emerald Ash Borer costs of \$7,046,000; and
b) the 2013 Council approved infrastructure surcharge of \$590,000 for the Emerald Ash Borer program be redirected to the Reserve;

- 9) a) And That the Ramp-up reserve fund the remaining ice storm costs of \$605,000; and
b) the Council approved infrastructure surcharge for ice storm costs totaling \$625,000 be redirected to the Reserve;
- 10) And That Council approve the 2017 Planning & Design Operating Budget totalling \$9,150,651, (excluding the 2016 surplus/deficit), the principal components of which are detailed in Appendix 4;
- 11) And That Council approve the 2017 Engineering Operating Budget totalling \$7,355,144, (excluding the 2016 surplus/deficit), the principal components of which are detailed in Appendix 5;
- 12) And That Council approve the 2017 Building Standards Operating Budget totalling \$8,801,488, (excluding the 2016 surplus/deficit), the principal components of which are detailed in Appendix 6;
- 13) And That Council approve the 2017 Waterworks Operating Budget totalling \$121,173,184 (excluding the 2016 adjustment), the principal components of which are detailed in Appendix 7;
- 14) And That upon finalization of the 2016 audited financial statements, the 2017 Operating, Planning & Design, Engineering, Building Standards, and Waterworks Operating Budgets be adjusted to reflect the 2016 operating results;
- 15) And That a copy of the Budgets be made available to the public through the Clerk's Department, the City website and each of the Markham Public Libraries;
- 16) And That the "Additional Financial Disclosure Requirements Pursuant to Ontario Regulation 284/09" be received for information purposes;
- 17) And That this report be brought forward to Council on Tuesday, December 13, 2016;
- 18) And further, That Staff be authorized and directed to do all things necessary to give effect to this resolution.

PURPOSE:

To obtain Council approval of the City of Markham's 2017 Budget.

BACKGROUND:

Nine Budget Committee meetings were held from October to November 2016 to discuss and review the 2017 Budget.

All Budget Committee meetings were open to the public, and were audio streamed. The presentations along with full audio recordings are available on the City's web portal. A public consultation meeting was held on November 14th, 2016 at the Civic Centre.

The City developed a new “Made in Markham” budget video as part of the 2017 budget process, explaining how Markham develops its annual budget which is available on the City’s web portal.

At the public consultation meeting, there were three deputations. The following topics were raised and answers were provided by Staff:

- Invasive species and turtle protection/fencing
- Holiday decorations and flowers along Yonge Street in Thornhill
- Utility rate increases

The following topics were discussed at the Budget Committee meetings:

- a fiscal scan including economic trends and budgetary pressures;
- a review of the 2017 operating and capital budgets;
- a review of the 2017 Planning & Design, Engineering, Building and Waterworks operating budgets;
- a review of the 2017 all Members of Council budget requests;
- the City’s asset life-cycle reserve study.

DISCUSSION:

The 2017 Budget totals \$443,344,124 and the breakdown is as follows:

	\$
Operating Budget	201,774,678
Library	13,614,879
Capital Budget	81,474,100
Planning & Design	9,150,651
Engineering	7,355,144
Building Standards	8,801,488
Waterworks	121,173,184
Total Budget	443,344,124

Details on the 2017 Operating Budget and Library Budget are shown on page 6.

2017 Capital Budget

The total 2017 Capital Budget includes 228 projects totaling \$81,474,100.

In June 2016, Council pre-approved 17 capital projects totaling \$12,016,600. Pre-approval was requested in order to begin the procurement process with the goal of completing the projects in an expedited manner.

The approval of \$69,457,500 requested in this report is for the remaining 211 projects.

	# Projects	\$
June pre-approval Council report	17	12,016,600
Additional projects approved by Budget Committee	211	69,457,500
Total	228	81,474,100

The 2017 Capital Budget includes \$12,310,600 for the design and construction of 92.8 acres of new parkland, \$10,117,600 for the continuation of the West Thornhill flood control program, \$8,924,300 for the repair and replacement of the City's water and wastewater infrastructure, \$5,903,000 for asphalt resurfacing, \$5,207,100 for exterior and interior facility improvements at community centres, libraries, fire stations and the Civic Centre, \$4,000,000 investment in Markham District Energy Inc. (MDEI), \$2,608,500 for library collections, \$1,856,700 for the environmental assessment and design of multi-use pathways and \$826,700 for intersection improvements.

Markham is partnering with the Toronto and Region Conservation Authority (TRCA) in 2017 to develop a master plan for the Milne Dam Conservation Park. Phase I of the project is being cost shared 50/50 with Markham contributing \$15,000 and future phases will be undertaken in 2018-2020.

2016 Life-cycle Replacement and Capital Reserve Study Update

The Reserve was formally established in 2004 to address the on-going capital replacement and rehabilitation requirements of the City's assets. The adequacy of the Reserve is reviewed through the annual update of the Life-cycle reserve study ("Reserve Study") using a 25-year rolling planning horizon. For the past 12 years, there have been sufficient funds in the Reserve for the replacement and rehabilitation of assets for the next 25 years based on known inflows and outflows.

Every year when the reserve study is updated, the current year is dropped and a new 25th year is added to the forecast, resulting in a funding shortfall due to inflation, past growth and new assets. In the past, the shortfalls were mitigated through:

- increases in projected PowerStream and MDEI dividends;
- allocation of \$3,000,000 of Federal Gas Tax revenues towards incremental life-cycle expenditures; and
- life-cycle E3 opportunities

In the 2016 reserve study update, the initial shortfall was (\$68,000,000) which was brought down to (\$23,000,000) through the following mitigating strategies, some of which are subject to Council approval:

1. increase the incremental transfer (currently at \$500,000) from the Operating Budget to the Reserve by 2% annually for inflation ;
2. redirect the \$510,000 currently in the operating budget (which was previously transferred to the Library reserve for years 2003-2012) to the Reserve since the Library transfer is no longer required;
3. a) fund the remaining Emerald Ash Borer costs of \$7,046,000 from the Ramp-up Reserve; and
b) redirect the 2013 Council approved infrastructure surcharge of \$590,000 for the Emerald Ash Borer program to the Reserve; and

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4. a) fund the remaining ice storm costs of \$605,000 from the Ramp-up Reserve; and
b) redirect the Council approved infrastructure surcharge for ice storm costs totaling \$625,000 to the Reserve; and
 5. budget for the return of funds to the Reserve from closure of capital projects in the amount of \$1,000,000 annually;
 6. fund the 10% non-development charge funded portion of new parks projects in the amount of \$800,000 from the Parks Cash-in-lieu Reserve, currently being funded from the operating non-life cycle funds;
 7. a) remove the one-time contingency funds in the amount of \$14,400,000 included in the Reserve for an EAB-like event.

In order to fund the remaining shortfall of (\$23,000,000), a 0.5% tax rate increase (included in the recommended tax rate increase 3.46%) for infrastructure investment is recommended.

2017 Planning & Urban Design, Engineering and Building Standards Operating Budgets

A 15% increase in Planning & Urban Design fees has been incorporated into the Planning & Urban Design operating budget which totals \$9,150,651, with a budgeted transfer to reserve of \$481,000.

A 15% increase Engineering fees has been incorporated Engineering operating budget which totals \$7,355,144, with a budgeted draw from reserve of (\$75,000).

A 5% increase in the 2017 Building fees for Building Permit applications has been incorporated into the Building Standards operating budget which totals \$8,801,448, with a budgeted draw from reserve of (\$490,000).

2017 Waterworks Operating Budget

The 2017 Water and Wastewater rate of \$3.8555/m³ effective April 1st, 2017 (an increase of 7.8% over the 2016 rate) is incorporated into the 2017 Waterworks operating budget of \$121,173,184.

2017 Operating Budget

The following exhibit reconciles the 2016 approved Operating Budget to the 2017 Operating Budget from \$206,537,355 to \$215,389,557 (figures include Library and exclude Planning & Design, Engineering, Building Services and Waterworks):

<u>REVENUES</u>	<u>2017 Budget \$</u>
2016 Approved Budget - Revenues	206,537,355
Assessment Growth (Property taxes from new homes and businesses)	2,360,396
3.46% Property Tax Rate Increase	4,824,546
CPI and Volume Adjustments for User and Program Fees	1,087,273
Other	579,987
Total 2017 Budget Revenues - excluding 2016 surplus/deficit	<u>215,389,557</u>
 <u>EXPENDITURES</u>	
2016 Approved Budget - Expenditures	206,537,355
Salaries and Benefits for existing staff	4,213,340
Growth (roads, waste, parks, streetlights and winter maintenance)	3,070,000
Municipal Service Contracts	1,410,000
Other	158,862
Total 2017 Budget Expenditures - excluding 2016 surplus/deficit	<u>215,389,557</u>

The 2017 Library budget is \$13,614,879, details of which are shown in Appendix 2.

The 2016 operating results are excluded from the above figures until the City's audited financial statements are finalized and approved by Council. Staff will present the 2016 consolidated financial statements to General Committee in April 2017. Upon finalization of the 2016 audited financial statements, the 2017 Operating (including Library), Planning & Design, Engineering, Building Standards and Waterworks budgets will be adjusted to reflect the 2016 surplus/deficit.

The 2017 Budget aligns with the Council approved strategic priorities which address social, economic and environmental considerations. The Budget includes service level enhancements while providing Markham residents value for their money. The 2017 Operating Budget achieves fiscal sustainability by not using one-time funding to balance the budget.

During the budget development process, the City of Markham addressed the challenge of delivering a balanced budget with a reasonable tax rate increase in response to increased operating expenditures resulting from economic and growth pressures.

Economic pressures stem from collective agreements for existing Staff, increasing utility costs greater than inflation and third party contract renewals such as winter maintenance.

Markham is a growing municipality, and budgetary requirements increase as the City continues to add to its inventory of parks, streetlights, and roads each year, requiring additional resources to maintain and replace assets. Further, Markham has exhibited sound fiscal management by phasing-in future personnel and non-personnel costs related to facility openings for the South East Community Centre and Library, Pan Am Facility, Markham Centre and Langstaff Fire Stations and Operations Works Yard, some of which are subject to Council approval.

To mitigate the impact of economic and growth pressures, Staff continues to make every effort to find efficiencies to reduce operating costs and explore sustainable revenue sources through our continuous improvement program, **Excellence through Efficiency and Effectiveness (E3)**. Through the E3 program the City has achieved over \$24,400,000 in operational savings

and revenue enhancements since 2009 avoiding the need for an approximately 21% property tax rate increase over that period.

During the budget process, Staff identified \$1,672,000 of E3s which assisted in reducing the initial proposed tax rate increase from 4.37% to 3.46%. These efficiencies included a reduction in the waste collection budget driven by lower tonnage and the introduction of the textile recycling initiative, reallocation of long-term disability budgeted funds to offset other increased benefit costs, negotiated savings from new contracts, savings from energy retrofit projects, additional property tax instalment penalty revenue and Recreation user fee facility utility recovery.

Summary

In summary, the 2017 Operating Budget expenditures increased by \$8,852,202, offset by an increase in revenues of \$4,027,656, resulting in a net shortfall of \$4,824,546, equivalent to a property tax rate increase of 3.46% which includes an infrastructure investment of 0.5%.

The 2017 Budget is a fiscally responsible budget that keeps taxes low while providing for new and important community infrastructure.

Additional Financial Disclosure Requirements Pursuant to Ontario Regulation 284/09

Ontario Regulation 284/09 requires the 2017 Budget be provided in accordance to the Public Sector Accounting Board 3150 format prior to budget approval. The City's financial statements includes the impact of tangible capital asset (TCA) amortization, and the full accrual method of accounting.

Ontario Regulation 284/09 states that municipalities may exclude from budgets, all or a portion of the estimated cost of certain expenses. Exclusion of these expenses allows for preparation & presentation of a traditionally balanced budget. Expenses eligible for exclusion from budget are:

1. Amortization; and
2. Post-employment benefits

Hence, the 2017 Budget is re-stated in accordance to Ontario Regulation 284/09 as part of the 2017 Budget approval process.

	Reference to	\$ in M
	Exhibit 1	Increase/ (Decrease)
Balanced Budget		0.00
Net revenues to fund Capital projects	2	29.10
Transfer to reserve/reserve funds	3	48.42
Tangible Capital Assets (TCA) amortization	4	(73.17)
Post-employment benefits	5	(0.09)
Non-tangible capital assets	6	(19.72)
Adjusted 2017 budget - Deficit	7	(15.47)

Reference #2: Net revenues to fund Capital projects – Represents new revenues to the City (eg. Development Charges, Federal Gas Tax revenues, stormwater fees, developer funds and Federal infrastructure grants) to fund the 2016 capital budget.

Reference #3: Transfer to reserve/reserve funds – Represents contributions to reserves and reserve funds. These are not considered expenditures under the full accrual method of accounting, but become part of the actual year end surplus (retained earnings).

Reference #4: Tangible Capital Assets (TCA) amortization – Calculated based on actual amortization expenses from "in-service" assets as of 2016 and amortization expenses for assets projected to be "in-service" in 2017 using the 1/2 year rule.

Reference #5: Post-employment benefits – The budget excludes the current year's post employment benefit expenses estimated at \$92,076 based on actuarial valuation. However, the City will fully fund the 2017 post employment benefit obligations as part of the year-end accounting accruals and other adjustments.

Reference #6: Non-tangible capital assets – Included in the 2017 capital budget, and they will be re-stated as operating expenses.

The restatement of the 2017 Budget in accordance with the full accrual method of accounting and Ontario Regulation 284/09 results in a projected deficit of (\$15,465,372). Details of the re-stated budget are outlined in Exhibit 1.

For comparison purposes, the re-stated 2016 Budget included a projected surplus of \$15,120,416 as compared to the 2017 projected deficit of (\$15,465,372). The primary reason for the change between 2016 and 2017 is due to timing of the development charges funded capital projects (2016: \$55,337,004 vs. 2017: \$18,959,030). The re-stated surplus/deficit will fluctuate year over year.

EXHIBIT 1**2017 CONSOLIDATED BUDGET**

**- Re-stated in Accordance with the Full Accrual Method of Accounting -
- In Compliance with Ontario Regulation 284/09 -**

REVENUES

- City (excl. Library, Planning & Design, Engineering, Building Standards and Waterworks)		\$214,289,841	
- Library		\$1,099,716	
- Planning & Design		\$9,150,651	
- Engineering		\$7,280,144	
- Building Standards		\$8,311,488	
- Waterworks		\$121,173,184	
Total Revenues from Operations			\$361,305,024
Non-Tangible Capital		\$19,717,800	
Tangible Capital Assets		\$61,756,300	
Total Capital - Tangible & Non-Tangible		\$81,474,100	
<i>Less: Transfer from Reserve / Reserve Funds</i>	(1)	<i>(\$52,376,096)</i>	
Net Revenues to fund Capital	(2)		\$29,098,004
TOTAL REVENUES			\$390,403,028

EXPENSES

- City (excl. Library, Planning & Design, Engineering, Building Standards and Waterworks)		\$201,774,678	
- Library		\$13,614,879	
- Planning & Design		\$9,150,651	
- Engineering		\$7,280,144	
- Building Standards		\$8,311,488	
- Waterworks		\$121,173,184	
Total Operating Expenses		\$361,305,024	
<i>Less: Transfer to Reserve / Reserve Funds</i>	(3)	<i>(\$48,415,400)</i>	
<i>Add: TCA Amortization Expenses</i>	(4)	<i>73,168,900</i>	
<i>Add: Post-employment benefit Expenses</i>	(5)	<i>\$92,076</i>	
Net Operating Expenses			\$386,150,600
Non-Tangible Capital	(6)	\$19,717,800	
Tangible Capital Assets		\$61,756,300	
Total Capital Expenses		\$81,474,100	
<i>Less: Tangible Capital Assets Capitalized</i>		<i>(\$61,756,300)</i>	
Net Capital Expenses - Not Capitalized			\$19,717,800
TOTAL EXPENSES			\$405,868,400
ADJUSTED BUDGET: 2017 FULL ACCRUAL ACCOUNTING BUDGET DEFICIT	(7)		(\$15,465,372)

NOTES:

- (1) Represents transfers from reserves and/or reserve funds to fund expenditures. These are not considered revenues under the full accrual method of accounting.
- (2) Represents new revenues to fund the 2017 capital budget
- (3) Represents contributions to reserves and/or reserve funds. These are not considered expenditures under the full accrual method of accounting, but become part of the actual year end surplus (retained earnings).
- (4) TCA Amortization Expenses are calculated based on actual amortization expenses from "in-service" assets as of 2016 and amortization expenses for assets projected to be "in-service" in 2017 using the 1/2 year rule.
- (5) Post-employment Benefit Expenses based on estimates provided by Nexus.
- (6) Non-Tangible Capital are included in the 2017 capital budget, and they will be restated as operating expenses.
- (7) Projected deficit is based on the restated 2017 budget.

HUMAN RESOURCES CONSIDERATIONS

Not applicable.

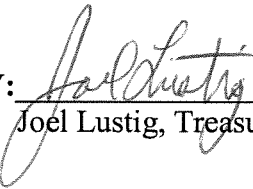
ALIGNMENT WITH STRATEGIC PRIORITIES:

Not applicable.

BUSINESS UNITS CONSULTED AND AFFECTED:

Not applicable.

RECOMMENDED

BY: 
Joel Lustig, Treasurer


Trinela Cane, Commissioner,
Corporate Services

ATTACHMENTS:

Appendix 1 – 2017 Total Corporation Operating Budget (Including Library, excluding Planning & Design, Engineering, Building Standards and Waterworks)

Appendix 2 – 2017 Library Operating Budget

Appendix 3 – 2017 Capital Budget (including Pre-Approved Capital Projects)

Appendix 4 – 2017 Planning & Design Operating Budget

Appendix 5 – 2017 Engineering Operating Budget

Appendix 6 – 2017 Building Standards Operating Budget

Appendix 7 – 2017 Waterworks Operating Budget